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MEMORANDUM

China: Contrasts in the Economy, 1978 and 1981

Late in 1978, Beijing announced new economic policies that repudiated the ambitious ten-year plan adopted less than a year earlier. The new policies also rejected the Soviet-style strategy emphasizing rapid growth based on heavy industry and highly centralized planning, which China had followed since the 1950s.

Basically, China's new development strategy calls for:

- Less investment, more consumption.
- Less emphasis on heavy industry, more on agriculture and light industry -- where consumer goods are produced.
- Eliminating bottlenecks in the energy, transportation-communications, and building materials sectors.
- Attracting foreign capital by a variety of means, including the establishment of special economic zones.

Since 1978, Beijing has experimented with a variety of economic reforms. In simple terms, these reforms encourage plant managers and peasants to produce a more desirable bundle of goods

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at the lowest possible cost. Because the old system has been so wasteful, even slight improvements are cost effective. During the past decade, warehouses have accumulated unwanted goods, and production costs have surged. The most important reforms include:

- Profit retention by industrial and commercial enterprises; production bonuses for workers.
- In the agricultural sector, transferring authority for production planning from commune and brigade levels down to individual households.
- Giving the banking system a broader role in allocating financial capital.

Finally, in coping with the difficulties encountered in implementing its new policies, Beijing has shown an unprecedented willingness to compromise with doctrinal principles--a willingness that was largely absent, or impossible, prior to the Third Plenum in December 1978. Examples include:

- A willingness to tap the international financial institutions for loans to ease balance of payments problems and to seek disaster relief from the United Nations.
- A much greater tolerance for private and collective enterprise.
- A willingness to use the "market" to distribute both consumer and capital goods.
- The greater use of the pricing system to adjust supply and demand.
- A willingness to permit peasant families and individuals to own more capital goods.

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-- The sale to individuals of state-built houses,
often with five-year mortgages financed by the
government.

In short, Beijing now is willing to explore a much broader range of options in solving its problems, whereas in 1978 and before the tendency was to stick to old policies, even at the risk of creating additional problems.

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